CONTENTS

CHAPTER 1. SUSTAINING A RECORD-BREAKING EXPANSION	
Growth and Inequality: A Century-Long Perspective	
The Golden Years of Equitable Growth	
Growth Undermined: Stagflation, Rising Inequality,	
and Deficits	•
The Return to Broad-Based Growth in a	
Record-Breaking Expansion	
The Engines of the 1990s Expansion	
Information and Other Technology	
Competition and Trade	
Education, Skills, and Work Incentives	
Pro-Investment Policies	
Key Features of the Expansion	
Productivity Growth	
Inflation	
Questioning the Causes of Inequality	
Is the Dream Restored?	
Challenges for the Future	
Stabilizing the Macroeconomy	
Enhancing Productivity	
Promoting Skills, Education, and Development	
Supporting the Diverse American Family	
Exploiting the Potential of Globalization	
Maintaining the Environment Efficiently	
Conclusion	
CHAPTER 2. MACROECONOMIC POLICY AND PERFORMANCE	
The Year in Review	
Components of Spending	
Labor Markets and Inflation	
Financial Markets	
Saving and Investment	
Trends in Saving	
Saving and Asset Accumulation	
The End of the Business Cycle?	
The Changing Nature of Business Cycles in the	
United States	

Sources of Business Cycle Moderation	
Do Expansions Die of Old Age?	
An Expansion is Only as Old as It Feels, and This One Still Feels Young	
The Economic Outlook	
What Has Caused Productivity Growth to Rise?	
The Outlook for Productivity	
Supply-Side Components of GDP	
Budget Effects of a High-Investment	
Economy	
What Has Held Inflation in Check?	
The Near-Term Outlook	
CHAPTER 3. TECHNOLOGY AND THE AMERICAN ECONOMY	
Innovation and Economic Change: A Look Back	
Innovation and Change in the American Economy Today	
Developments in Telecommunications	
How Information Technology is Changing the Economy	
Managing Information Flows	
Retail E-Commerce	
Business-to-Business E-Commerce	
Information Technology and the Theory of the Firm	
Information Technology and Network Effects	
The Role for Government Policies	
Support for Research and Development	
Technology Initiatives in the Budget	
Maintaining Competition	
Conclusion	
Chapter 4. Work and learning in the 21st century	
The Transformation of the Labor Market	
The Rising Importance of Skills and Education	
Growth in Opportunities	
Preparing the American Work Force for the 21 st Century	
Building Foundations: Educating America's Youth	
The Continuing Challenge: Reeducating and Retraining	
Conclusion	
CHAPTER 5. THE CHANGING AMERICAN FAMILY	
Key Trends Shaping the American Family	
Female Labor Force Participation	
Family Formation and Dissolution	

	ŀ
Life Expectancy and Health]
Increasing Diversity Across Families]
Diversity in Family Structure	1
Diversity of Income and Hours of Work	1
The Rising Earnings of Women with Children]
Challenges Families Face	1
The "Money Crunch"	1
Boosting the Financial Resources of Families to	
Lessen the Money Crunch]
The "Time Crunch"]
Increasing the Flexibility of Paid Work to Lessen	
the Time Crunch	1
Conclusion	1
Chapter 6 . Opportunity and challenge in the global economy	1
The Fall and Rise of the Global Economy	2
The Growing Importance of Trade	2
The Rise of International Capital Flows	2
The Forces Behind Globalization	2
The Role of Technology	2
The Role of Policy	2
The Benefits of a Global Economy	2
Globalization and Living Standards	2
Globalization and Growth	2
The Challenges of Globalization	2
Spreading the Benefits of Trade	2
Managing Capital Flows and the Macroeconomy	2
The Trade and Current Account Deficits	2
Conclusion	2
CHAPTER 7. MAKING MARKETS WORK FOR THE ENVIRONMENT	9
Environmental Problems Since 1900	4
A Brief History of Environmental Problems	9
Environmental Pollution and Development	6
Designing Policies to Address Environmental Pollution	6
Traditional Regulatory Approaches to Address	-
Environmental Pollution	2
Incentive-Based Approaches to Address	
Environmental Pollution	2
Important Issues in Designing Incentive-Based Instruments	2
Uncertainty About Costs and Benefits	9

	Pa
Heterogeneity in Abatement Benefits	25
Heterogeneity in Abatement Costs	25
Scope of the Emissions Trading Market	25
Restrictions on Trading	25
Liability	25
Banking and Borrowing	25
Tradable Permits and Charges in Practice	25
Permit Trading: Emissions Trading Policy Under the Clean Air Act	25
Permit Trading: RECLAIM	25
Permit Trading: Sulfur Dioxide Trading Program	25
Permit Trading: Phasedown of Leaded Gasoline	26
Charges: Unit-Based Pricing of Residential Solid Waste	26
Implications of the U.S. Experience	26
Applying the Lessons Learned: Global Climate Change	26
Flexibility Mechanisms in the Kyoto Protocol	20
Cost-Effectiveness of Kyoto Protocol Flexibility Mechanisms	20
Expanding the Scope of Trading to More Countries	26
Expanding the Scope of Trading to More Greenhouse	۵۱
Gases	20
Quantitative Restrictions on Trading	2
Liability Rules for Trading	2
Making Trading Across Countries Work	2
Conclusion	2
CONCLUSION. A CENTURY OF CHANGE: NEW OPPORTUNITIES	
FOR THE FUTURE	2
A Look Back	2
The American Economy Today	2
The Drivers of Change and the Challenges Ahead	28
Conclusion	28
APPENDIXES	
A. Report to the President on the Activities of the Council	
of Economic Advisers During 1999	28
B. Statistical Tables Relating to Income, Employment, and	
Production	29

	LIST OF TABLES
1-1.	Growth in GNP, Business Sector Output per Hour, and Number of Employees for Selected Periods
2-1.	Growth of Real GDP and its Components During 1998 and 1999
2-2.	The Late-Expansion Economy and the Current Expansion
2-3.	Accounting for the Productivity Acceleration in the 1990s
2-4.	Accounting for Growth in Real GDP, 1960-2007
2-5.	Administration Forecast
3-1.	Cost of Internet Access in 1999
3-2.	Information Technology Investment per Worker in the 15 Most Information Technology-Intensive Industries, 1996
4-1.	Share of Women Employed in Selected Occupations in 1950 and 1999
5-1.	Contrasting American Families Then and Now
5-2.	Educational Distribution of Women with Children
5-3.	Share of Women with Children Who Worked in Previous Year, by Education
7-1.	Number of Communities Adopting Unit-Based Pricing Residential Solid Waste Collection Programs
	LIST OF CHARTS
1-1.	Growth in Income per Capita and Business Sector Output per Hour
1-2.	Growth in Real Compensation per Hour (Nonfarm Business Sector)
1-3.	Growth in Mean Real Family Income by Quintile
1-4.	Real Private Investment in Equipment as a Share of Real GDP
1-5.	Trade as a Share of GDP During Expansions
1-6.	Contributions to Economic Growth During Expansions
1-7.	Federal Budget Receipts and Outlays
1-8.	Structural Federal Budget Balances During Expansions
1-9.	Growth in Nonfarm Business Sector Output per Hour During Expansions
1-10.	Core Inflation Rates During Expansions
1-11.	Capacity Utilization in Manufacturing During Long Expansions
2-1.	Unemployment Rate
2-2.	Inflation Rate

		Page
2-3.	Net Worth and the Personal Consumption Rate	55
2-4.	Inventory-to-Sales Ratio (Manufacturing and Trade)	56
2-5.	Federal Budget Surplus	57
2-6.	Growth of Real Compensation per Hour	0.0
o ==	(Nonfarm Business Sector)	62
2-7.	Capacity Utilization (Manufacturing)	63
2-8.	Equity Prices	65
2-9.	Yields on Treasury Securities	66
2-10.	Cumulative Real Returns in the Top Six Bull Markets Since 1802	68
2-11.	Real Stock and Bond Returns Since 1801	69
2-12.	Net National Saving and Net Domestic Investment	72
2-13.	Gross National Saving	73
2-14.	Fluctuations in Output, Inflation, and Unemployment	76
2-15.	Labor Productivity (Nonfarm Business Sector)	79
2-16.	Sources of Revisions to Real GDP Growth	82
2-17.	The Phillips Curve, Productivity, and the NAIRU	91
3-1.	Household Adoption of Selected Technologies Since 1900	100
3-2.	Contribution of Computers and Telecommunications Purchases to GDP Growth	105
3-3.	Real Private Direct Investment in Communications Equipment	109
3-4.	Households with Access to E-Mail at Home, by Income	111
3-5.	Real Net Stock of Information Technology Equipment in the Private Sector	112
3-6.	Real Inventory-to-Sales Ratios for Selected Product Categories	115
3-7.	Business-to-Business E-Commerce	117
3-8.	Patents Granted Since 1900.	122
4-1.	Composition of Employment by Major Sector Since 1900	130
4-2.	High School Graduation Rates of 25- to 29-Year-Olds by Race and Ethnicity	133
4-3.	College Completion Rates of 25- to 29-Year Olds by Race and Ethnicity	133
4-4.	Median Weekly Earnings of Male Workers by Educational Attainment	135
4-5.	Ratios of Median Weekly Earnings of Male College Graduates to Earnings of High School Graduates and Dropouts	136
4-6.	Ratios of Median Annual Earnings of Female Workers to Earnings of Males	139

4-7.	Ratios of Median Annual Earnings of African American Workers to Earnings of White Workers
4-8.	Average Scores on the Scholastic Assessment Test (SAT)
4-9.	Shares of Public Schools with Internet Access by Poverty Status
5-1.	Labor Force Participation of Women
5-2.	Shares of Population Aged 35-54 Who Are Widowed or Divorced
5-3.	Birth Rates for Married and Unmarried Females
5-4.	Composition of Families by Family Structure
5-5.	Grandchildren in Grandparents' Homes by Presence of Parents
5-6.	Median Family Income by Family Structure
5-7.	Income Distributions for Families with Children by Family Structure, 1998
5-8.	Distribution of Annual Hours Worked by Families with Children, 1998
5-9.	Time Available to Custodial Parents After Paid Work and Sleep
6-1.	GDP and Export Growth Rates for Group of Seven Countries Since 1700
6-2.	U.S. Trade Relative to GNP Since 1900
6-3	U.S. Trade by Sector in 1998
6-4.	Capital Flows Into and Out of the United States Relative to GNP
6-5.	Average U.S. Tariff Rates Since 1900
6-6.	GDP per Capita in the United States and Selected Major Economies
6-7.	Saving, Investment, and the Current Account Balance
6-8.	U.S. and Foreign GDP Growth and U.S. Net Exports
6-9.	Real Effective Exchange Rate of the Dollar and the Trade Deficit
7-1	Sulfur Dioxide and Nitrogen Oxide Emissions per Unit of GNP Since 1900
7-2	Carbon Dioxide Emissions per Unit of GNP Since 1900
7-3	South Coast Air Basin Exceedances of Federal Ozone Standard
7-4	Emissions from Phase I Facilities in the Sulfur Dioxide Trading Program
7-5	Lead Emissions

	LIST OF BOXES
2-1.	The CPI-U-RS, a Consumer Price Index with More
ω 1.	Consistent Methodology
2-2.	Economic Impact of Y2K Preparations
2-3.	What Did We Learn from the GDP Benchmark Revision?
3-1.	Measuring the Economy in an Era of Technological Change .
3-2.	Implementing Local Competition Provisions in the 1996 Telecommunications Act
3-3.	Holding an Online Auction
4-1.	The Role of Government Policy in Improving the Economic Status of African Americans
4-2.	Helping Areas Left Behind: Opening New Markets
4-3.	The Administration's Education Goals
4-4.	The Role of Community Colleges
4-5.	Using Technology to Help Workers: America's Career Kit
5-1.	The Importance of Fathers
5-2.	The Diversity of American Households
5-3.	Women Professionals, the Rat Race, and the Time Crunch
5-4.	The National Strategy to Reduce Teen Pregnancy
6-1.	Multinational Corporations and Globalization
6-2.	China's WTO Accession: Opening Foreign Markets, Extending the Rule of Law, and Encouraging Growth and Development
6-3.	The New International Financial Architecture
7-1.	Structural Economic Change and Carbon Dioxide Emissions
7-2.	Taking Account of the Environment
7-3.	Emissions Trading: An Illustrative Example
7-4.	Should Regulators Allocate or Sell Tradable Permits?
7-5.	Individual Quotas for Fisheries Management
7-6.	Expanding the Scope of the Market Through Developing Country Participation
7-7.	The EU Bubble Allocation and Restrictions on Kyoto Protocol Mechanisms
7-8.	The Renewable Portfolio Standard
7-9.	Climate Research and Development and Information

273